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UNITED STATES CIVIL SERVICE COMMISSION
BUREAU OF RETIREMENT AND INSURANCE
WASHINGTON 25, D.C.

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February 19, 1964

STAT

Government Employees Health Assn., Inc.
Post Office Box 463
Washington 4, D. C.

STAT

The House Post Office and Civil Service Committee has reported favorably to the House of Representatives on Senate-passed S. 1561. A copy of the bill as reported by the Committee is enclosed. You will note that, among other things, by amending the definition of "member of family" it provides health benefits coverage to foster children and to children between ages 19 and 21 and that this coverage will become effective on enactment of S. 1561.

The purpose of this letter is to inform you of this pending legislation and to alert you to the effect the bill will have on your Federal contract if it is enacted into law as presently written.

If S. 1561 becomes law, we will prepare a contract amendment to effect the statutory revisions and send it to you for execution. We will also supply all plans with a copy of any information you will need for implementation of the law. We will keep you informed of developments in this legislation.

Sincerely yours,

Thomas G. Walters
Assistant to the Chief
Contracts & Instructions Division

Enclosures

88TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 1142

AMENDMENTS TO THE FEDERAL EMPLOYEES HEALTH BENEFITS ACT OF 1959

FEBRUARY 17, 1964.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. POOL, from the Committee on Post Office and Civil Service, submitted the following

REPORT

[To accompany S. 1561]

The Committee on Post Office and Civil Service, to whom was referred the bill (S. 1561) to amend the Federal Employees Health Benefits Act of 1959, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

AMENDMENTS

The committee proposes two amendments to S. 1561 as it passed the Senate—an amendment to the text and an amendment to the title.

AMENDMENT TO THE TEXT

The amendment to the text of the bill strikes out all after the enacting clause and inserts in lieu thereof a substitute text which is contained in the reported bill in italic type. This amendment to the text of S. 1561 makes certain technical and perfecting changes in language, while incorporating all of the amendments to the Federal Employees Health Benefits Act of 1959 upon which the U.S. Civil Service Commission and the Senate are in unanimous agreement, and a further amendment to the act adopted by the committee which is also agreed to by the Commission. An explanation of the amendment to the text is contained in the explanation of the bill by sections.

99-006—64——1

AMENDMENT TO THE TITLE

The amendment proposed by the committee to the title of the bill is as follows:

Amend the title so as to read:

> An Act to amend the Federal Employees Health Benefits Act of 1959 to remove certain inequities in the application of such Act, to improve the administration thereof, and for other purposes.

The purpose of this amendment to the title is to provide a title which will reflect more accurately the text of S. 1561, as reported.

PURPOSE

S. 1561, which passed the Senate on November 15, 1963, by unanimous action and which has been unanimously reported from the committee, proposes a number of amendments to the Federal Employees Health Benefits Act of 1959 (Public Law 86–382; 5 U.S.C. 3001–3014). The purposes of these amendments are (1) to solve problems that have arisen from the application of the act to particular circumstances and which were unforeseen prior to enactment; (2) to correct certain inequities; and (3) to simplify and improve generally the administration of the act.

STATEMENT

The Federal employees health benefits program, which began operations on July 1, 1960, provides over 2 million Federal employees and their 4 million family members with health insurance protection that ranks among the most complete obtainable. By far the largest health benefits program in the world, it operates every day to protect Federal employees from the financial impact of both routine medical expenses and major medical and hospital costs.

The program has confounded the skeptics who had prophesied that a health benefits system of this magnitude could not be satisfactorily established within the confines of a legislative action. It was anticipated by many that serious administrative problems would develop that would require continual perfecting and remedial legislation. It is a real tribute to the Congress and to the people who worked with it and its committees in drafting the original legislation that this has not been the case.

However, the experience of the Civil Service Commission to date in administering the act has revealed a few minor problem areas which the Commission now feels require attention. In an official recommendation submitted to the Congress on May 8, 1963, the Commission proposed legislation to solve these problems and S. 1561 is the result of that recommendation.

During the course of the hearings which both this committee and the Senate Post Office and Civil Service Committee held on the legislation it became apparent that several other provisions of the Federal Employees Health Benefits Act of 1959, not included in the Commission's proposal, also require some perfecting action. The Senate committee added four additional amendments to the act that were not included in the Civil Service Commission's proposal, and this com-

mittee, while approving the Senate action, also added one further amendment which it feels will materially improve the program.

In summary, S. 1561 contains all of the amendments to the Federal Employees Health Benefits Act of 1959 that were recommended by the Civil Service Commission, plus four additional amendments that were adopted by the Senate and one further amendment adopted by this committee. The Civil Service Commission has offered no objection to any of these additional amendments.

Explanation of the Bill by Sections

The first section of the bill, consisting of 14 paragraphs, makes all substantive and technical changes in the Federal Employees Health Benefits Act of 1959 which are recommended by the Civil Service Commission as well as those additional changes approved by the Senate and by this committee.

Paragraphs (1) and (2) of such first section permit enrolled employees to continue their health insurance coverage when placed on employees' compensation even though the injury giving rise to compensation payments occurred prior to enactment of the Health Benefits Act in 1959. Paragraphs (1) and (2) simply eliminate the present date criterion, the phrase "on or after such date of enactment," in the definition of annuitant.

At present the enrolled employee who goes on compensation based on an injury suffered before the 1959 enactment date loses his health benefits coverage and is not again eligible for coverage until and unless he returns to active employment. The compensable disability may remit and recur again and again. Each time the old injury forces the employee back on the compensation rolls, he loses coverage. This amendment will permit such an employee to retain his coverage while on compensation in the same manner as the employee entitled to compensation due to an injury sustained after 1959. The amendment corrects a situation which is extremely unfair to the individual involved and to his family and which further complicates the overall administration of the health benefits program.

Paragraph (3)(A) adds foster children who are living with the employee or annuitant in a regular parent-child relationship to the list of family members who can be covered by the enrollment of an employee or annuitant.

Under present law, adopted and natural children, but not foster children, may be covered under an employee's family enrollment. This places an extra burden on employees with foster children. Some examples related to the committee are employees who are rearing grandchildren, a niece, and a minor brother whose parents are dead. The amendment would also cover a child who is in the legal custody of an employee. Foster children are customarily included in family memberships by other large employers and insurers, and the amendment simply brings the Federal program into line with this practice. The Civil Service Commission reports that the latent additional cost of covering foster children is negligible.

Paragraph (3)(B) is the further amendment to the Health Benefits Act adopted by the committee which makes a most desirable improvement in the program. It continues health benefits coverage under an employee's family enrollment for unmarried children up to the age of 21 years. The age limit presently in the law is 19 years. The

committee amendment strikes 19 years where it appears in section 2(d) of the act and substitutes in lieu thereof 21 years.

This change will bring the health benefits program into line with a similar liberalization that Congress enacted into the retirement program in the last Congress to continue survivor benefits for children over the age of 18 and under 20, provided they are pursuing full-time studies. The committee did not include a requirement that the children be pursuing full-time studies because such a requirement in the Health Benefits Act was vigorously opposed by the Civil Service Commission on the basis that "it would be so difficult of administration under the health benefits program as to be impracticable if not actually unworkable."

The Commission does not oppose raising the age limit to 21 for all unmarried children regardless of whether or not they are in school. In fact, it did recommend the 21-year age limit in April 1959 to the Senate Post Office and Civil Service Committee during original consideration of the health benefits legislation. The Commission states that the cost of extending health benefits coverage to children up to the age of 21 would be minimal.

Paragraph (4), in conjunction with paragraphs (10) and (11), would eliminate from present law a provision that tends to discriminate against married female employees who are required to pay appreciably more for their health benefits protection than are married male employees. This amendment was adopted by the Senate.

Under present law the Government, in effect, does not contribute to the health benefits coverage of a nondependent husband of a married woman employee. Family plan coverage is available to the family of married women Government employees with the standard Government contribution only if the husband is in a dependent status. For example, the Government contribution for a female employee or annuitant enrolled for self and family, including a nondependent husband, is now not less than $1.75 nor more than $2.50 biweekly. This compares with not less than $3 nor more than $4.25 biweekly in the case of a male employee enrolled for self and family. This amendment would place the female employee with family, including nondependent husband, on the same Government-contribution basis as regular family enrollments.

The Civil Service Commission reports that, in the interest of equity, it does not object to equalizing the Government contribution for women with nondependent husbands. It estimates that about 100,000 such women would qualify for an increase in contribution of $1.30 biweekly, based on present contribution rates. On this basis, the annual cost of this amendment to the Government would be between $3.25 million and $3.5 million.

Paragraph (5) provides that an employee who enrolled in a health plan up through December 31, 1964, who otherwise might be ineligible to do so because he did not enroll at the first opportunity, may continue his coverage as an annuitant.

Under present law, in order to continue coverage after retirement, the employee must have been enrolled for not less than 5 years immediately prior to retirement or must have enrolled at his first opportunity. Despite every effort to inform them, many employees did not grasp the importance of enrolling at the first opportunity, and those of this group coming up for retirement in the next few years will find themselves ineligible for continued coverage as retirees be-

cause of failure to enroll at the first opportunity. The proposed amendment will enable such employees to enroll up through December 31, 1964, in order to keep their health plans after retirement.

Paragraph (6), which is another amendment adopted by the Senate, has the effect of making retroactive the amendment to the Health Benefits Act proposed by paragraph (5) above. The paragraph (6) amendment, in which the Civil Service Commission concurs, anticipates the development of an inequity and corrects it in advance. It is intended to cover enrolled employees who retired since July 1960, and who are without health insurance coverage because they had failed to enroll at their first opportunities. It will permit these very few retired employees involved to regain their health benefits protection by allowing them to enroll up through December 31, 1964.

This liberalization is extended only to those retired employees who were actually enrolled in a health plan under the act and who met every other requirement at the time of retirement except that they had not enrolled at their first opportunity. It does not provide that coverage has been in effect retroactively, nor does it apply to retirees who retired without ever having been enrolled in a plan.

Paragraph (7) permits the Civil Service Commission to terminate the contract of any carrier at the end of a contract term if the Commission should find that in the preceding two contract terms the carrier did not have 300 or more employees and annuitants enrolled in its plan.

This authority would be discretionary which the Commission reports it would use sparingly and with good judgment. The Commission states that the cost of contract negotiation and settlement, preparation of brochures, and other processes and operations necessary for such plans are disproportionate to any advantage in keeping them in the program as carriers. There are currently 5 plans, all of the group-practice type with a combined enrollment of 538, whose contracts could be terminated under this proposed authority.

Paragraph (8) eliminates the present requirement of law that the Civil Service Commission review and approve the terms and conditions of nongroup contracts offered by carriers to former employees or annuitants who elect to convert.

These terms and conditions are generally subject to regulation by State law. The Commission reports that it is highly impracticable for it to review all conversion contracts that can be offered under State law. In many cases terms are specified, at least in part, by State laws and regulations, and cannot be altered by the Commission. Consequently, review by the Commission does little or nothing to improve the conversion contracts and tends to limit the number of conversion contracts available to departing Federal employees to those which have been filed with the Commission and processed by the Commission's staff. The Commission states it will continue to provide in its contracts that carriers must offer conversion contracts which meet certain requirements of law and regulations, such as noncancelability and elimination of waiting periods.

Paragraph (9) eliminates the present requirement that the employee or annuitant who elects to convert to a nongroup contract be offered the choice of a cancelable or a noncancelable conversion policy.

This amendment proposes that only noncancelable contracts will be required to be offered. The present law requirement that a choice be offered between a cancelable and noncancelable contract has proved meaningless. No cancelable contracts have been requested, evidently

because of the uncertain protection they afford. It would be in the best interest of Federal employees to require only that noncancelable policies be offered for conversion purposes. The amendment would not prohibit a carrier from offering the additional option of a cancelable policy if it is so desired.

Paragraph (10) is discussed under the heading "Paragraph (4)." Paragraph (10) strikes out of present law the separate Government contribution rates and enrollment classification for a "female employee or annuitant enrolled for self and family, including a nondependent husband."

Paragraph (11) corrects a technical defect in the present law in order to maintain the intent that the Government contribution shall not exceed 50 percent of the lowest priced, Government-wide option.

The present law is so worded as to require a Government contribution of more than 50 percent where the employee enrolls in a plan costing more than the legal minimum but less than the lowest priced, Government-wide option. Section 7(a)(1) of the Health Benefits Act sets the legal minimum at $1.25. The cost of the lowest priced, Government-wide option is presently $2.60 so that the Government contribution is $1.30. Section 7(a)(2) of the act provides that if a plan costs less than $2.50 biweekly, the Government contribution will be 50 percent of the actual charge.

There are no instances now in which the Government contribution actually exceeds 50 percent, but the situation could arise in the event the cost of the Government-wide option, which is used as the basis for fixing the Government contribution, were to increase, for example, to $3 biweekly, so that the Government contribution would then be $1.50 across the board. In such a circumstance section 7(a)(2) would take care of a plan that costs less than $2.50; but in the case of a plan costing $2.60 biweekly the Government contribution would be $1.50, or 57.7 percent, rather than 50 percent, or $1.30.

The amendment limits the Government contribution to 50 percent at most in cases of this sort for all enrollments, including a female employee with nondependent husband.

Paragraph (12) incorporates into S. 1561 the provisions of H.R. 7400 which was introduced as a result of an official recommendation of the Civil Service Commission and which passed the House of Representatives on the Consent Calendar on October 7, 1963. The paragraph was added by the Senate.

This amendment will give the Civil Service Commission authority to transfer unneeded funds from the administrative expense reserve fund under the Health Benefits Act to the contingency reserves of the various health plans in proportion to the subscription charges of the plans. The present 1 percent set aside for the administrative expense reserve has accumulated a sum more than adequate to pay administrative expenses. Paragraph (12) will enable the Commission to reduce the administrative reserve fund and to avoid accumulation of unneeded funds in this reserve by diverting the excess to the contingency reserves of participating plans where it can be utilized to benefit subscribers.

Paragraph (13) adds a new subsection (d) to section 8 of the Health Benefits Act in order to cover situations not presently dealt with in the law with regard to the contingency reserves of discontinued plans and *plans sponsored by* employee organizations that merge.

Paragraph (1) of such new subsection (d) provides for the transfer to a successor organization of all the assets (including contingency reserves) and liabilities of health plans sponsored by employee organizations that merge. Each employee or annuitant affected by a merger will also be transferred to the plan sponsored by the successor organization unless he chooses to enroll in another plan.

This amendment was included by the Senate in S. 1561 in order to correct the problem created when two or more employee organizations merge, each of which sponsors a health benefits plan. The specific case involved is the merger in May 1961 between the National Federation of Post Office Clerks and the United National Association of Post Office Craftsmen to form the present United Federation of Postal Clerks. Both of the merged organizations operated large and successful health benefits plans. In this particular case, an actual merger of the plans was not effected. Instead, it was decided to permit the smaller of the two plans, that sponsored by the United National Association of Post Office Craftsmen, to expire, with the membership transferring to the plan sponsored by the successor organization. However, when a final accounting of the smaller plan was made, it was found that it had built up a sizable contingency reserve for which there is no present provision for disposition. These reserve funds presently exist in a limbo from which they might not be removed. This amendment permits the funds to be transferred to the health plan of the United Federation of Postal Clerks so that they can be of benefit to those employees to whom they rightfully belong.

The Civil Service Commission has given its full endorsement to this amendment as a solution to the existing problem and a method for handling future such occurrences.

Paragraph (2) of such new subsection (d) authorizes the Civil Service Commission to credit the contingency reserve of any discontinued plan to those plans remaining in the health benefits program for the contract term following that in which the termination occurred. Each of the remaining plans will be credited in proportion to the premiums paid and accrued for the year of discontinuance.

Present law also makes no provision for the disposition of the contingency reserves of health benefits plans that may discontinue business. The Civil Service Commission has recommended this amendment as an equitable method of disposing of these funds. Each plan will be credited in proportion to the amount of its premiums for the year of discontinuance which, roughly, reflects the number of persons covered by the plan.

Paragraph (14) permits a reinstated or restored employee to elect to enroll as a new employee or remain in the same plan and receive indemnification for medical expenses incurred during a period of removal or suspension.

The employee now has no such choice and his coverage must be made retroactive with an attendant adjustment of premiums and claims, if any, back to date of removal or suspension. The amendment would permit a restored employee to elect whether to have retroactive coverage or to enroll as a new employee. It is assumed that restored employees will not need or want retroactive coverage where their medical expenses during the period of removal or suspension are minor.

This amendment is designed to afford equitable treatment to the relatively few employees involved. Reinstatement of an employee may occur months after his suspension or removal. During the interim he may have acquired and paid for other health insurance. Such an employee should not have his Federal employee coverage reinstated retroactively, as the law presently requires, and be made to pay twice for his health insurance while he was suspended or removed. Additionally, the employee may be enrolled in a group-practice plan which provides direct medical services (not indemnities) which he could not obtain during the erroneous suspension or removal.

Section 2 of S. 1561 provides that paragraphs (4), (10), and (11) of the first section of the bill shall become effective on the first day of the first pay period which begins at least 90 days after the date of enactment. The Civil Service Commission needs this leadtime in order to make effective the above paragraphs that will place married women employees with nondependent husbands on the same Government contribution and enrollment basis as male employees with families.

HEARINGS

The committee held an extensive hearing on this legislation on August 2, 1963, at which 18 witnesses representing the administration, employee organizations, insurance underwriters, and health associations testified.

COST

With the exception of the estimated cost of approximately $3.25 million per annum to equalize Government contributions to the health benefits men and women employees, enactment of this measure will not result in any additional net cost. In fact, the Civil Service Commission estimates that minor savings in administrative expenses will result.

AGENCY RECOMMENDATIONS

The executive communication from the U.S. Civil Service Commission recommending enactment of this legislation and additional communications on related provisions of the measure follow:

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., May 8, 1963.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: The Civil Service Commission is submitting with this letter, for the consideration of the Congress, proposed amendments to the Federal Employees Health Benefits Act. The proposed amendments would remove certain inequities in the application of the act and simplify its administration. Enclosed are a draft bill, sectional analysis, and a statement of purpose and justification which, respectively, set forth, analyze, and give reasons for the proposed amendments. These state the nature of the proposals specifically and in detail.

The Bureau of the Budget advises that there would be no objection from the standpoint of the administration's program to submission of the draft bill.

A similar letter is being sent the President of the Senate.
By direction of the Commission:
Sincerely yours,

JOHN W. MACY, JR., *Chairman.*

STATEMENT OF PURPOSE AND JUSTIFICATION

Our experience to date under the Federal Employees Health Benefits Act has revealed a number of problems which arise from the application of the act to particular circumstances, some of which were unforeseen prior to enactment of the law. The purpose of the proposed legislation is to solve some of these problems, remove certain inequities in the application of the act, and simplify its administration. No added Government costs will result from the proposed changes. They will instead produce minor savings, the amount of which cannot be estimated.

The proposals have been stated in the sectional analysis and the reasons for the amendments follow.

(1 and 2) are intended to eliminate termination of eligibility for health benefits coverage where an enrolled employee becomes entitled to employees' compensation based on an injury suffered before enactment of the act. The compensable disability may remit and recur again and again. Each time the individual returns to the active rolls as an employee he is eligible to enroll as an employee and each time he goes on the compensation rolls he loses eligibility. This is unfair to the individual and complicates administration. The proposed amendment, by changing the definition of annuitant, would permit the employee enrolled under the Federal Employees Health Benefits Act to take his coverage with him, as an annuitant, when he returns to the compensation rolls.

(3) Customarily health benefits insurers have included foster children in family memberships. They were not so included under the Federal program and the result was an increased cost of health benefits to some employees. Among cases which have come to our attention are those of three employees who are, respectively, rearing grandchildern, a niece, and a minor brother, whose parents are dead. In each of these cases the employee is precluded by State law from adopting children so closely related. In other cases employees are rearing children under preadoption agreements. The latent additional cost of covering foster children is negligible.

(4) Under present law an employee in order to continue coverage after retirement must have been enrolled for not less than the 5 years immediately preceding his retirement or must have enrolled during the first enrollment period. The Commission and other involved agencies made every effort to inform all employees concerning the health program. However, some employees, because of the newness of the program and a failure to comprehend the importance of initial enrollment, did not avail themselves of the first opportunity to enroll. The present amendment will enable those who enroll up through December 31, 1963, to keep their health plans after retirement.

(5) This provision would permit the Commission to terminate the contract of any carrier at the end of a contract period if during the preceding two contracts periods the carrier did not have 300 or more employees and annuitants enrolled in its plan. There are currently

(December 1962) five plans, with a combined enrollment of 538, whose contracts could be terminated under this proposed authority. The amendment here proposed would impose little, if any, additional workload upon the Commission. The costs of contract negotiation and settlement, preparation of brochures, and other administrative processes and operations necessary for such plans are disproportionate to any advantage resulting from their inclusion as carriers.

(6) The present act requires a former employee or annuitant who elects to convert to a nongroup contract to pay the full periodic charges on such terms and conditions as are prescribed by the carrier and approved by the Commission. These terms and conditions are generally subject to regulation by State law. The Commission cannot well review all conversion contracts that can be offered under State law. In many cases terms are specified, at least in part, by State laws and regulations, and cannot be altered by the Commission. Consequently review by the Commission does little to improve the conversion contracts and tends to limit the number of conversion contracts available to departing Federal employees to those which have been filed with the Commission and processed by the Commission's staff. The Commission will continue to provide in its contracts that carriers must offer conversion contracts which meet certain requirements of law and regulations, such as noncancelability and elimination of waiting periods.

(7) Present law requires that the employee or annuitant be offered the choice of a cancelable or noncancelable conversion policy. There have been no requests for cancelable conversion policies. Moreover, the protection offered by such a policy is somewhat illusory as it can be revoked at any time. Under the circumstances it would seem to be in the best interest of Federal employees to require only that a noncancelable policy be offered for conversion purposes. This would not prohibit a carrier offering the additional option of a cancelable policy if it so desired.

(8) The literal wording of section 7(a)(2) of the present law would require a Government contribution amounting to more than 50 percent when the lowest priced, Government-wide option costs more than the minimum prescribed by law and the employee enrolls in a plan costing more than the legal minimum but less than the lowest priced, Government-wide option. This does not appear to have been the intent of Congress. This amendment limits the Government contribution to 50 percent at most in cases of this sort.

(9) Two of the original plans have already discontinued participation in the Federal employees health benefits program. The present act makes no provision for the disposition of the contingency reserves of discontinued plans. The proposal herein made is, we feel, an equitable method of disposing of these funds. Each plan will be credited in proportion to the amount of its premiums for the year of discontinuance—which, roughly, reflects the number of persons covered by the plan.

(10) The present law provides that an employee who is removed or suspended and then restored to duty shall not be deprived of coverage and benefits for the interim period. To this end it requires appropriate adjustments in contributions, and claims. The proposed amendment would permit a restored employee to elect whether to have retroactive coverage, or to enroll as a new employee. Restored employees will

not need or want, retroactive coverage where their medical expenses during the period of removal or suspension are minor.

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., August 19, 1963.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

Dear Mr. CHAIRMAN: This refers further to your request of March 14, 1963, for a report on H.R. 4525, a bill to amend the Federal Employees Health Benefits Act of 1959, with respect to the contribution made by Government toward health benefit protection for employees and annuitants and members of their families.

The bill, if enacted, would (1) change the method for determining the amount of the Government's contributions; (2) give women with nondependent husbands the same contribution as other employees with family enrollments; and (3) increase the amount of the Government's contribution.

The Commission endorses the proposal to change the method for determining the amount of the Government's contribution which now, in general, equals but cannot exceed 50 percent of the cost of the least expensive option offered by the Government-wide plans. The least expensive Government-wide option costs $2.60 biweekly for a self-only enrollment and $6.24 biweekly for a family enrollment. Except for a relatively few employees who are in plans offering options priced at less than these amounts, the Government contributes biweekly $1.30 for a self-only enrollment, $3.12 for a regular family enrollment, and $1.82 for a family enrollment of a woman with a nondependent husband.

This method of determining the amount of the Government's contribution should be changed because it is unsatisfactory. Probably its major fault is that it creates the following anomalous situation:

The less expensive (i.e., low) options have attracted the good insurance risks. Most of the low options, including the one which determines the Government's contribution, have had such good morbidity and claims experience as to warrant an increase in benefits or a reduction in premium rates. However, if we increased benefits it would blur the distinction between low- and high-option benefits; if we reduced the rates, including the rate for the least expensive Government-wide option, the Government's contribution would also be reduced to an amount less than the minimum specified in the act and the large majority of employees who are in the high options would have to pay more out of pocket for this coverage since high-option rates could not also be reduced.

H.R. 4525 proposes a method under which the Government would contribute specified biweekly amounts for self-only and family enrollments, but not exceeding in any case 50 percent of the total biweekly subscription charge. This would leave the initiative for a change in the Government contribution with the Congress and allow flexibility in setting the amount thereof. Also, it would permit the Commission to consider proposals for changes in benefits and rates on their merits instead of in the light of their impact on the amount of the Government's contribution.

In the interest of equity, the Commission does not object to the proposal which would equalize the Government contribution for women with nondependent husbands. We estimate that about 100,000 such women would qualify for an increase in contribution of $1.30 biweekly, based on present contribution rates, and that therefore the annual cost to the Government would be between $3.25 million and $3.5 million.

The Commission opposes the proposal to increase the Government's contribution at this time because it is not in accord with the administration's fiscal policy.

Including the 1 percent administrative expenses and the 3 percent contingency reserves add-on provided for by section 8(b) of the Federal Employees Health Benefits Act of 1959, and on the basis of enrollments in force at the close of 1962, the proposal in H.R. 4525 would increase the Government's biweekly contribution as follows:

Type of enrollment	Present contribution	Proposed contribution	Amount of increase	Percentage increase
Self only	$1.30	$2.08	$0.78	60
Regular family	3.12	5.20	2.08	67
Family with nondependent husband	1.82	5.20	3.38	186

Type of enrollment	Approximate number enrolled	Amount of biweekly increase	Total of biweekly increase	Annual cost
Self only	500,000	$0.78	$390,000	$10,140,000
Regular family	1,500,000	2.08	3,120,000	81,120,000
Family with nondependent husband	100 000	3.38	338,000	8,788,000
Total			3,848,000	100,048,000

H.R. 4525 could accordingly add up to $100 million to the Government's annual payroll cost.

During the 3 years the Federal employees health benefits program has been in existence, a small minority of employees have had to pay relatively modest increases in premiums—none on an order of magnitude approaching the percentages of increases in the Government's contribution proposed in H.R. 4525. The Commission, therefore, believes that it would be appropriate to postpone any consideration of an increase in the Government contribution to health benefits to a time in the future when at least a majority of employees have experienced a premium increase and that at that time the increase in the Government's contribution should bear some proportion to the premium increase. We therefore, urge that the $2 and $5 figures in section 1 of the bill be amended to specify $1.25 and $3, respectively, so as to leave the Government's contribution at the present amounts.

Accordingly, if amended as suggested, the Commission favors the enactment of H.R. 4525.

In connection with identical bill, S. 761, the Bureau of the Budget advised that there would be no objection to the submission of this report to the committee.

By direction of the Commission:

Sincerely yours,

JOHN W. MACY, JR., *Chairman.*

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., August 22, 1963.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN. This is in response to a request made by your committee staff for our estimate of first-year cost of the increased Government contributions proposed in H.R. 4525.

This estimate is grounded on the cost of Government contributions on the H.R. 4525 basis to the two Government-wide plans which, together, cover approximately 76 percent of all employees enrolled in the program. It assumes no change during the open season in October 1963 in size or distribution of enrollment as between the two Government-wide plans, as between the high and low options of each of these plans, and as among the three types of enrollment (self only, self and family, and self and family—wife with nondependent husband).

Using the premium rates for the fourth contract period (November 1963–October 1964) the additional cost of Government contributions for that contract year for these two plans would be approximately $40.40 million. Projecting this cost over the entire universe of enrolled employees we come up with an estimated total added first year Government cost of $53.87 million.

This would increase total Government contributions costs for the next contract period from $132.3 million to about $186.21 million. Thereafter plans would undoubtedly increase benefits and rates to take full advantage of the increased Government contribution; this would, in turn, bring the increased Government cost up close to the potential $100 million mentioned in the Commission's report of August 19, 1963.

Sincerely yours,

JOHN W. MACY, JR., *Chairman.*

U.S. CIVIL SERVICE COMMISSION,
Washington, D.C., September 5, 1963.

Hon. TOM MURRAY,
Chairman, Committee on Post Office and Civil Service,
House of Representatives.

DEAR MR. CHAIRMAN: This refers further to your request of January 24, 1963, for Commission report on H.R. 1102, a bill to amend section 2 of the Federal Employees Health Benefits Act of 1959 to provide that certain students 21 years of age and under shall be included as a member of the family of a Federal employee enrolled in an approved health benefits plan.

Under existing law, the family health benefits enrollment of an employee or annuitant covers, as members of family, his spouse and his unmarried children under age 19. An unmarried child aged 19 or over is covered as a member of family if incapable of self-support due to mental or physical incapacity which existed before his 19th birthday. A child's status and coverage as a member of family thus ceases on the day the child marries, reaches age 19, or, if covered beyond age 19, when he becomes capable of self-support. Cessation of coverage in each instance is subject to a 31-day temporary extension of coverage,

during which the employee has a right to convert the child's coverage, without evidence of insurability, to a nongroup health benefits contract offered by the carrier of his plan.

Effective upon enactment, H.R. 1102 would add another exception to the general provision for termination of a child's coverage at age 19. Under the added exception an unmarried child would be covered as a family member after age 19, but not beyond age 21, so long as he regularly pursues a full-time course of study or training in residence in a high school, trade school, technical or vocational institute, junior college, college, university, or other comparable recognized educational institution. Once qualified as a student, the child would be deemed still in full-time school attendance and eligible for coverage during nonschool intervals of not over 4 months between school years or terms, provided he shows a clear intention to continue a full-time student in the same or another school. A student-child reaching age 21 in any month other than July or August would be deemed not to reach age 21 until the July 1 following his actual 21st birthday. Coverage of a child meeting these conditions could thus continue until his actual or presumed 21st birthday, subject to earlier termination if he ceases to be a student. Once coverage terminated because of ceasing to be a student, it could not resume even though the child again returned to full-time schooling before reaching age 21.

The bill needs technical revision in two respects: (1) in line 7, page 1, change the word "eighteen" to "nineteen", to be consistent with existing law, and (2) in line 12, page 2, delete the phrase "to the satisfaction of the Commission"; verification of intention to continue schooling would have to be made by each of some 10,000 employing offices, in connection with family enrollments, and by each of the 40 health benefit carriers, in connection with claims.

Also, the immediate effective date proposed is unrealistic. At least 6 months leadtime would be required to permit implementation of a change of this sort. Detailed information on student-child eligibility would have to be disseminated worldwide to all employing offices, employees, and annuitants. A special enrollment period would have to be arranged to allow persons hitherto without family members to change from self only to family enrollments to cover children newly made eligible as students. To support this type of enrollment change, involving higher employee and Government contributions, it would be necessary to make advance determinations of eligibility of alleged full-time students. In addition, the health benefits carriers would have to develop new procedures and guides for ascertaining and determining student-child status for purposes of claims.

If H.R. 1102 is to be seriously considered, it should be amended to make coverage for the new student-child class effective no earlier than 6 months after enactment.

The Commission does not concur in this proposal. This idea was considered and rejected by the Congress in connection with the framing of the Health Benefits Act in 1959. Senate Report 468, dated July 2, 1959, on S. 2162, the bill which became the Health Benefits Act, states in pertinent part:

"Various birthdays were suggested as being appropriate for ending coverage of children as dependents under family policies. S. 94 included children to age 19 unless they were enrolled in a full-time course of study at an educational institution; in that event coverage

was extended to the 23d birthday. The Civil Service Commission's proposal of April 15 suggested an age limit of 21 for all children whether or not they were in school.

"The committee was aware of the prevalence of college health plans and of inexpensive 'education' health policies available for students. It also examined the prevailing provisions for terminating children's coverage under family policies in voluntary health insurance plans throughout the country. It concluded that it was desirable to cover children until the normal age for completing high school. At this age many young people cease to be dependent and become wage earners. Coverage to age 19 seemed, therefore, the most logical provision."

The Commission agreed in 1959, and still agrees, with this sound judgment on duration of children's coverage adopted by the Congress. Our experience with the health benefits program has not disclosed any significant shift or trend in pertinent factors which would warrant a reversal of the judgment made by the 86th Congress.

Since the health benefits program began in 1960, we have received only a limited number of individual inquiries or suggestions regarding coverage for children over age 19 attending school, and have noted no really urgent or widespread demand for adding such a provision to the health benefits law. It is apparent that this particular legislative proposal was given impetus by the fact that the Civil Service Retirement Act was amended October 11, 1962, to extend survivor annuity to children beyond age 18 up to age 21 based on full-time school attendance. The Commission favored the Retirement Act amendment, but did so for reasons which do not apply to the health benefits program. Child survivors under the retirement law receive their benefits because of the loss through death of the family's main support. Availability of survivor annuity to the student-child aged 18 to 21, who is either an orphan or has only one parent surviving, may often provide the margin of income which enables him to continue with his education.

These considerations do not exist with respect to extending health benefits coverage to student-children aged 19 to 21. In each case, the employee-parent is still living, and termination of the child's health benefits coverage at age 19 presents no real barrier to continuation of his education. The worst that happens is that the employee-parent has to pay a few extra dollars per month for the child's health insurance over a limited period.

The student-child provisions in the Retirement Act have proved complex to apply and their administration has been feasible only because it is done on a centralized basis. This crucial advantage would be absent under the health benefits program which is of necessity operated on a widely decentralized basis. While the Commission has overall responsibility for administering and directing the health benefits program, the great mass of day-to-day operations are carried on by some 10,000 employing offices located worldwide and by the 40 health benefits carriers.

Employing office responsibilities include such functions as explaining to employees their rights and obligations under the program, determining eligibility or ineligibility of employees, registering and enrolling eligibles, processing enrollment changes, reporting enrollments and changes to carriers, remitting and accounting for withholdings and contributions, and maintaining all necessary records of

these transactions. As part of the enrollment process, employing offices now determine the self-support capability of over-age-19 children claimed to be dependent. If an employee has no other member of family, the dependency decision on his over-age-19 child governs his eligibility to enroll or remain enrolled for self and family. At present, these decisions on children past age 19 need be made only infrequently where incapability of self-support is claimed.

Enactment of a student-child provision would multiply the occasions for such decisions many times over. Immediately and on a continuing basis, such provision would confront employing offices with the task of verifying with educational institutions throughout the world the full-time student status of all children claimed by employees to be students in connection with all existing and future family enrollments. Considering that over 1,500,000 family enrollments are now in force, it is possible to visualize the immensity of the added workload which would be imposed upon employing offices. In our judgment, the added administrative expense with respect to employing offices alone would be disproportionately high in comparison to benefits which would accrue to student-children.

A heavy burden would also fall upon health benefits carriers in adjudicating claims and providing health benefits to enrollees and members of their families. Before carriers could make cash payments or payments to doctors and hospitals in student-child cases, the carriers would be obliged to ascertain current student-child status, as well as its existence continuously since age 19 or since date of coverage under a family-enrollment after that age. In some instances the carrier could probably verify a child's student status from records in employing offices (if very recent), but in most cases the carriers would undoubtedly have to make an independent verification of status through correspondence or other contact with educational institutions. The result could only be delays in settlement of claims, ranging in degree from moderate to unconscionable, and a material increase in carriers' administrative expenses.

Even the student-children would be subjected to certain undesirable side effects. For example, in many cases a student-child's admission to a hospital without cash deposit would be delayed pending verification of his current and uninterrupted status as a covered student-child.

In the light of these prospects it is our opinion that the proposed student-child coverage provision would be so difficult of administration under the health benefits program as to be impracticable if not actually unworkable. Accordingly, the Commission recommends that adverse action be taken on H.R. 1102.

We have no data on which to base an estimate of the added cost which would result from enactment of H.R. 1102. Some added cost would certainly result. The cost of providing health benefits for the group, aged 19 to 21, would be negligible. Practically all of the resulting added costs would be in the form of increased administrative expenses. A student-child provision would not, in and of itself, cause any immediate rise in subscription rates, but the feature would be one more factor added to other existing factors which will require rate increases in the future.

Should Congress nevertheless decide to extend children's coverage beyond age 19, the Commission wishes to renew at this time the proposal it advanced in April 1959 to the Senate Committee on Post Office and Civil Service. We would recommend in this event that the age

limit be raised to 21 for all children, regardless of whether they are in school.

The Bureau of the Budget advises that from the standpoint of the administration's program there is no objection to the submission of this report.

By direction of the Commission.

Sincerely yours,

JOHN W. MACY, Jr., *Chairman.*

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

FEDERAL EMPLOYEES HEALTH BENEFITS ACT OF 1959

* * * * * * *

DEFINITIONS

SEC. 2. As used in this Act—

* * * * * * *

(c) "Annuitant" means—

* * * * * * *

(3) an employee who receives monthly compensation under the Federal Employees' Compensation Act [as a result of injury sustained or illness contracted on or after such date of enactment] and who is determined by the Secretary of Labor to be unable to return to duty, and

(4) a member of a family who receives monthly compensation under the Federal Employees' Compensation Act as the surviving beneficiary of (A) an employee who, having completed five or more years of service, dies as a result of illness or injury compensable under such Act or (B) a former employee who is separated after having completed five or more years of service and who dies while receiving monthly compensation under such Act [on account of injury sustained or illness contracted on or after such date of enactment] and has been held by the Secretary of Labor to have been unable to return to duty.

* * * * * * *

(d) "Member of family" means an employee's or annuitant's spouse and any unmarried child (1) under the age of [ninteen] *twenty-one* years (including (A) an adopted child, and (B) a [stepchild or] *stepchild, fostor child, or* recognized natural child who lives with the employee or annuitant in a regular parent-child relationship), or (2) regardless of age who is incapable or self-support because of mental or physical incapacity that existed prior to his reaching the age of [nineteen] *twenty-one* years.

[(e) "Dependent husband" means a husband who is incapable of self-support by reason of mental or physical disability which can be expected to continue for more than one year.]

* * * * * * *

ELECTION OF COVERAGE

SEC. 3. (a) Any employee may, at such time, in such manner, and under such conditions of eligibility as the Commission may by regulation prescribe, enroll in an approved health benefits plan described in section 4 either as an individual or for self and family. Such regulations may provide for the exclusion of employees on the basis of the nature and type of their employment or conditions pertaining thereto, such as, but not limited to, short-term appointments, seasonal or intermittent employment, and employment of like nature, but no employee or group of employees shall be excluded solely on the basis of the hazardous nature of their employment.

(b) Any annuitant who at the time he becomes an annuitant shall have been enrolled in a health benefits plan under this Act—

(1) for a period not less than (A) the five years of service immediately preceding retirement or (B) the full period or periods of service between the last day of the first period, as prescribed by regulations of the Commission, in which he is eligible to enroll in such a plan and the date on which he becomes an annuitant, [whichever is shorter,] or (*C*) *the full period or periods of service beginning with the enrollment which became effective not later than December 31, 1964, and ending with the date on which he becomes an annuitant, whichever is shortest, or*

(2) as a member of the family of an employee or annuitant may continue his enrollment under such conditions of eligibility as may be prescribed by regulations of the Commission.

(c) If an employee has a spouse who is an employee, either spouse (but not both) may enroll for self and family, or either spouse may enroll as an individual, but no person may be enrolled both as an employee or annuitant and as a member of the family.

(d) A change in the coverage of any employee or annuitant, or of any employee or annuitant and members of his family, enrolled in a health benefits plan under this Act may be made by the employee or annuitant upon application filed within sixty days after the occurrence of a change in family status or at such other times and under such conditions as may be prescribed by regulations of the Commission.

(e) A transfer of enrollment from one health benefits plan described in section 4 to another such plan may be made by an employee or annuitant at such times and under such conditions as may be prescribed by regulations of the Commission.

(f) Persons employed by the county committees established pursuant to section 8(b) of the Soil Conservation and Domestic Allotment Act (16 U.S.C. 590h(b)) may, in such manner and under such conditions of eligibility as the Commission by regulation may prescribe, enroll in an approved health benefits plan described in section 4 either as an individual or for self and family, under the same terms and conditions as apply to other employees who are eligible to enroll in such a plan under this Act. The Secretary of Agriculture is authorized and directed to prescribe and issue such regulations as may be necessary to provide a means of effecting the application and operation of the provisions of this subsection with respect to such persons.

(*g*) *Any annuitant (including an individual receiving monthly compensation as a result of injury sustained prior to the effective date specified in section 16 and who would be an annuitant if the injury or illness had been sustained or contracted on or after that date) who at the time*

he became an annuitant shall have been enrolled in a health benefits plan under this Act and who at the time he became an annuitant was ineligible to continue his enrollment may, upon his application before December 31, 1964, and under such other conditions of eligibility as the Commission may by regulation prescribe, prospectively enroll in an approved health benefits plan described in section 4, either as an individual or for self and family.

* * * * * * *

CONTRACTING AUTHORITY

SEC. 6 (a) The Commission is authorized, without regard to section 3709 of the Revised Statutes or any other provision of law requiring competitive bidding, to enter into contracts with qualified carriers offering plans described in section 4. Each such contract shall be for a uniform term of at least one year, but may be made automatically renewable from term to term in the absence of notice of termination by either party.

* * * * * * *

(d) The Commission is authorized to prescribe regulations fixing reasonable minimum standards for health benefits plans described in section 4 and for carriers offering such plans. Approval of such a plan shall not be withdrawn except after notice, and opportunity for hearing without regard to the Administrative Procedure Act, to the carrier or carriers concerned. *The Commission may terminate the contract of any carrier effective at the end of a contract term, if the Commission finds that at no time during the preceding two contract terms did the carrier have three hundred or more employees and annuitants (exclusive of family members) enrolled for its plan.*

* * * * * * *

(f) No contract shall be made or plan approved which does not offer to each employee and annuitant whose enrollment in the plan is terminated, other than by a cancellation of enrollment, a temporary extension of coverage during which he may exercise the option to convert, without evidence of good health, to a nongroup contract providing health benefits. An employee or annuitant who exercises this option shall pay the full periodic charges of the nongroup [contract, on such terms or conditions as are prescribed by the carrier and approved by the Commission] *contract.*

(g) The benefits and coverage made available pursuant to the provisions of subsection (f) shall [, at the option of the employee or annuitant,] be noncancelable by the carrier except for fraud, overinsurance, or nonpayment of periodic charges.

* * * * * * *

CONTRIBUTIONS

SEC. 7. (a)(1) Except as provided in paragraph (2) of this subsection, the Government contribution for health benefits for employees or annuitants enrolled in health benefits plans under this Act, in addition to the contributions required by paragraph (3), shall be 50 per centum of the lowest rates charged by a carrier for a level of benefits offered by a plan under paragraph (1) or paragraph (2) of section 4, but (A) not less than $1.25 or more than $1.75 biweekly for

an employee or annuitant who is enrolled for self alone[,] *and* (B) not less than $3 or more than $4.25 biweekly for an employee or annuitant who is enrolled for self and family [(other than as provided in clause (C) of this paragraph), and (C) not less than $1.75 or more than $2.50 biweekly for a female employee or annuitant enrolled for self and family including a nondependent husband].

[(2) For an employee or annuitant enrolled in a plan described under section 4 (3) or (4) for which the biweekly subscription charge is less than $2.50 for an employee or annuitant enrolled for self alone or $6 for an employee or annuitant enrolled for self and family, the contribution of the Government shall be 50 per centum of such subscription charge, except that if a nondependent husband is a member of the family of a female employee or annuitant who is enrolled for herself and family the contribution of the Government shall be 30 per centum of such subscription charge.]

(2) For an employee or annuitant enrolled in a plan described under section 4 (3) or (4) for which the biweekly subscription charge is less than twice the Government contribution established under paragraph (1) of this subsection, the Government contribution shall be 50 per centum of the subscription charge.

* * * * * * *

EMPLOYEES HEALTH BENEFITS FUND

SEC. 8. (a) There is hereby created an Employees Health Benefits Fund, hereinafter referred to as the "Fund", to be administered by the Commission, which is hereby made available without fiscal year limitation for all payments to approved health benefits plans. The contributions of employees, annuitants, and the Government described in section 7 shall be paid into the Fund.

(b) Portions of the contributions made by employees, annuitants, and the Government shall be regularly set aside in the Fund as follows: (1) a percentage, not to exceed 1 per centum of all such contributions, determined by the Commission as reasonably adequate to pay the administrative expenes made available by section 9; (2) for each health benefits plan, a percenatage, not to exceed 3 per centum of the contributions toward such plan, determined by the Commission as reasonably adequate to provide a contingency reserve. *The Commission, from time to time and in such amounts as it considers appropriate, may transfer unused funds for administrative expenses to the contingency reserves of the plans then under contract with the Commission. When funds are so transferred, each contingency reserve shall be credited in proportion to the total amount of the subscription charges paid and accrured to the plan for the contract term immediately preceding the contract term in which the transfer is made.* The income derived from any dividends, rate adjustements, or other refunds made by a plan shall be credited to its contingency reserve. The contingency reserves may be used to defray increases in future rates, or may be applied to reduce the contributions of employees and the Government to, or to increase the benefits provided by, the plan from which such reserves are derived, as the Commission shall from time to time determine.

(c) The Secretary of the Treasury is authoried to invest and reinvest any of the moneys in the Fund in interest-bearing obligations of the United States and to sell such obligations of the United States

for the purposes of the Fund. The interest on and the proceeds from the sale of any such obligations shall become a part of the Fund.

(d)(1) Whenever the assets, liabilities, and membership of employee organizations sponsoring or underwriting plans approved under section 4(3) have been or are hereafter merged, the assets (including contingency reserves) and liabilities of the plans sponsored or underwritten by the merged organizations shall, at the beginning of the contract term next following the date of the merger or enactment of this subsection, be transferred to the plan sponsored or underwritten by the successor organization. Each employee or annuitant hereafter affected by a merger shall also be transferred to the plan sponsored or underwritten by the successor organization unless he enrolls in another plan under this Act.

(2) Except as provided in paragraph (1) of this subsection, whenever a plan described under section 4(3) or 4(4) is or has been discontinued under this Act, the contingency reserve of that plan shall be credited to the contingency reserves of the plans continuing under this Act for the contract term following that in which termination occurs, each reserve to be credited in proportion to the amount of the subscription charges paid and accrued to the plan for the year of termination.

* * * * * * *

ADMINISTRATION

SEC. 10. (a) * * *

* * * * * * *

(c) Any employee enrolled in a plan under this Act who is removed or suspended without pay and later reinstated or restored to duty on the ground that such removal or suspension was unjustified or unwarranted [shall not be deprived of coverage or benefits for the interim but shall have his coverage restored to the same extent and effect as though such removal or suspension had not taken place, and appropriate adjustments shall be made in premiums, subscription charges, contributions, and claims] *may, at his option, enroll as a new employee or have his coverage restored, with appropriate adjustments made in contributions and claims, to the same extent and effect as though such removal or suspension had not taken place.*

○

Union Calendar No. 475

88TH CONGRESS
2D SESSION

S. 1561

[Report No. 1142]

IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 18, 1963

Referred to the Committee on Post Office and Civil Service

FEBRUARY 17, 1964

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

AN ACT

To amend the Federal Employees Health Benefits Act of 1959.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, ~~That the Federal Employees Health Benefits Act of 1959 (5 U.S.C. 3001–3014) is hereby amended as follows:~~

~~(1) Section 2(c)(3) is amended by striking the words "as a result of injury sustained or illness contracted on or after such date of enactment".~~

~~(2) Section 2(c)(4) is amended by striking the words "on account of injury sustained or illness contracted on or after such date of enactment".~~

(3) Section 2(d) is amended by inserting, after "step-child", ", foster child,".

(4) Section 2(e) is repealed.

(5) Section 3(b)(1) is amended by inserting, after "or", the last word in the paragraph, the following: "(C) the full period or periods of service beginning with the enrollment which became effective not later than December 31, 1963, and ending with the date on which he becomes an annuitant, or".

(6) Section 3 is amended by adding the following subsection:

"(g) Any annuitant (including an individual receiving monthly compensation as a result of injury sustained prior to the effective date specified in section 16 and who would be an annuitant if the injury or illness had been sustained or contracted on or after that date) who at the time he became an annuitant shall have been enrolled in a health benefits plan under this Act and who at the time he became an annuitant was ineligible to continue his enrollment may, upon his application before July 1, 1964, and under such other conditions of eligibility as the Commission may by regulation prescribe, prospectively enroll in an approved health benefits plan described in section 4 either as an individual or for self and family."

~~(7) Section 6(d) is amended by the addition of a sentence reading as follows:~~

~~"The Commission may terminate the contract of any carrier effective at the end of a contract term if the Commission finds that at no time during the preceding two contract terms did the carrier have three hundred or more employees and annuitants (exclusive of family members) enrolled for its plan."~~

~~(8) Section 6(f) is amended by placing a period after the word "contract" in the last sentence and striking the remainder of the sentence.~~

~~(9) Section 6(g) is amended by striking ", at the option of the employee or annuitant,".~~

~~(10) Section 7(a)(1) is amended by inserting the word "and" at the end of clause (A) and by striking out the following: "(other than as provided in clause (C) of this paragraph), and (C) not less than $1.75 or more than $2.50 biweekly for a female employee or annuitant enrolled for self and family including a nondependent husband".~~

~~(11) Section 7(a)(2) is amended to read as follows:~~

~~"(2) For an employee or annuitant enrolled in a plan described under section 4 (3) or (4) for which the biweekly subscription charge is less than twice the Government contribution established under paragraph (1) of this subsection,~~

the Government contribution shall be 50 per centum of the subscription charge."

(12) Section 8(b) is amended by inserting after the first sentence thereof, the following new sentences:

"The Commission, from time to time and in such amounts as it considers appropriate, may transfer unused funds for administrative expenses to the contingency reserves of the plans then under contract with the Commission. When funds are so transferred, each contingency reserve shall be credited in proportion to the total amount of the subscription charges paid and accrued to the plan for the contract term immediately preceding the contract term in which the transfer is made."

(13) Section 8 is amended by adding the following subsection:

"(d)(1) Whenever the assets, liabilities and membership of employee organizations sponsoring or underwriting plans approved under section 4(3) have been or are hereafter merged, the assets (including contingency reserves) and liabilities of the plans sponsored or underwritten by the merged organizations shall, at the beginning of the contract term next following the date of the merger or enactment of this subsection, be transferred to the plan sponsored or under-

written by the successor organization. Each employee or annuitant hereafter affected by a merger shall also be transferred to the plan sponsored or underwritten by the successor organization unless he enrolls in another plan under this Act.

"(2) Except as provided in paragraph (1) of this subsection, whenever a plan described under section 4(3) or 4(4) is or has been discontinued under this Act, the contingency reserve of that plan shall be credited to the contingency reserves of the plans continuing under this Act for the contract term following that in which termination occurs, each reserve to be credited in proportion to the amount of the subscription charges paid and accrued to the plan for the year of termination."

(14) Section 10(c) is amended to read as follows:

"(c) Any employee enrolled in a plan under this Act who is removed or suspended without pay and later reinstated or restored to duty on the ground that such removal or suspension was unjustified or unwarranted may, at his option, enroll as a new employee or have his coverage restored to the same extent and effect as though his removal or suspension had not taken place with appropriate adjustments made in contributions and claims."

~~SEC. 2. Paragraphs 4, 10, and 11 of section 1 shall take effect on the first day of the first period which begins at least ninety days after the date of enactment of this Act.~~

That the Federal Employees Health Benefits Act of 1959 (5 U.S.C. 3001–3014) is hereby amended as follows:

(1) Section 2(c)(3) (5 U.S.C. 3001(c)(3)) is amended by striking out "as a result of injury sustained or illness contracted on or after such date of enactment".

(2) Section 2(c)(4) (5 U.S.C. 3001(c)(4)) is amended by striking out "on account of injury sustained or illness contracted on or after such date of enactment".

(3) Section 2(d) (5 U.S.C. 3001(d)) is amended—

(A) by inserting ", foster child," immediately following "stepchild"; and

(B) by striking out "nineteen" wherever occurring therein and inserting in lieu thereof "twenty-one".

(4) Section 2(e) (5 U.S.C. 3001(e)) is repealed.

(5) Section 3(b)(1) (5 U.S.C. 3002(b)(1)) is amended—

(A) by striking out "whichever is shorter, or"; and

(B) by inserting in lieu thereof "or (C) the full period or periods of service beginning with the enroll-

ment which became effective not later than December 31, 1964, and ending with the date on which he becomes an annuitant, whichever is shortest, or".

(6) Section 3 (5 U.S.C. 3002) is amended by adding at the end thereof the following new subsection:

"(g) Any annuitant (including an individual receiving monthly compensation as a result of injury sustained prior to the effective date specified in section 16 and who would be an annuitant if the injury or illness had been sustained or contracted on or after that date) who at the time he became an annuitant shall have been enrolled in a health benefits plan under this Act and who at the time he became an annuitant was ineligible to continue his enrollment may, upon his application before December 31, 1964, and under such other conditions of eligibility as the Commission may by regulation prescribe, prospectively enroll in an approved health benefits plan described in section 4, either as an individual or for self and family."

(7) Section 6(d) (5 U.S.C. 3005(d)) is amended by adding at the end thereof the following new sentence: "The Commission may terminate the contract of any carrier effective at the end of a contract term, if the Commission finds that at no time during the preceding two contract

terms did the carrier have three hundred or more employees and annuitants (exclusive of family members) enrolled for its plan."

(8) Section 6(f) (5 U.S.C. 3005(f)) is amended by striking out ", on such terms or conditions as are prescribed by the carrier and approved by the Commission".

(9) Section 6(g) (5 U.S.C. 3005(g)) is amended by striking out ", at the option of the employee or annuitant,".

(10) Section 7(a)(1) (5 U.S.C. 3006(a)(1)) is amended—

(A) by striking out the comma at the end of clause (A) thereof and inserting "and" in lieu of such comma; and

(B) by striking out "(other than as provided in clause (C) of this paragraph), and (C) not less than $1.75 or more than $2.50 biweekly for a female employee or annuitant enrolled for self and family including a nondependent husband".

(11) Section 7(a)(2) (5 U.S.C. 3006(a)(2)) is amended to read as follows:

"(2) For an employee or annuitant enrolled in a plan described under section 4 (3) or (4) for which the biweekly subscription charge is less than twice the Government contribution established under paragraph (1) of this subsection,

the Government contribution shall be 50 per centum of the subscription charge."

(12) Section 8(b) (5 U.S.C. 3007(b)) is amended by inserting immediately after the first sentence thereof the following new sentences: "The Commission, from time to time and in such amounts as it considers appropriate, may transfer unused funds for administrative expenses to the contingency reserves of the plans then under contract with the Commission. When funds are so transferred, each contingency reserve shall be credited in proportion to the total amount of the subscription charges paid and accrued to the plan for the contract term immediately preceding the contract term in which the transfer is made."

(13) Section 8 (5 U.S.C. 3007) is amended by adding at the end thereof the following new subsection:

"(d)(1) Whenever the assets, liabilities, and membership of employee organizations sponsoring or underwriting plans approved under section 4(3) have been or are hereafter merged, the assets (including contingency reserves) and liabilities of the plans sponsored or underwritten by the merged organizations shall, at the beginning of the contract term next following the date of the merger or enactment of this subsection, be transferred to the plan sponsored or underwritten by the successor organization. Each employee or annuitant hereafter affected by a merger shall also be trans-

ferred to the plan sponsored or underwritten by the successor organization unless he enrolls in another plan under this Act.

"(2) Except as provided in paragraph (1) of this subsection, whenever a plan described under section 4(3) or 4(4) is or has been discontinued under this Act, the contingency reserve of that plan shall be credited to the contingency reserves of the plans continuing under this Act for the contract term following that in which termination occurs, each reserve to be credited in proportion to the amount of the subscription charges paid and accrued to the plan for the year of termination."

(14) Section 10(c) (5 U.S.C. 3009(c)) is amended to read as follows:

"(c) Any employee enrolled in a plan under this Act who is removed or suspended without pay and later reinstated or restored to duty on the ground that such removal or suspension was unjustified or unwarranted may, at his option, enroll as a new employee or have his coverage restored, with appropriate adjustments made in contributions and claims, to the same extent and effect as though such removal or suspension had not taken place."

SEC. 2. Paragraphs (4), (10), and (11) of the first section of this Act shall become effective on the first day of the first pay period which begins at least ninety days after the date of enactment of this Act.

Amend the title so as to read: "An Act to amend the Federal Employees Health Benefits Act of 1959 to remove certain inequities in the application of such Act, to improve the administration thereof, and for other purposes."

Passed the Senate November 15 (legislative day, October 22), 1963.

Attest: FELTON M. JOHNSTON,

Secretary.

Union Calendar No. 475

88TH CONGRESS
2D SESSION

S. 1561

[Report No. 1142]

AN ACT

To amend the Federal Employees Health Benefits Act of 1959.

NOVEMBER 18, 1963

Referred to the Committee on Post Office and Civil Service

FEBRUARY 17, 1964

Reported with amendments, committed to the Committee of the Whole House on the State of the Union, and ordered to be printed

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